
**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
POLICY SUBCOMMITTEE
OF THE
INVESTMENT COMMITTEE

MINUTES OF MEETING**

April 11, 2011

A meeting of the Policy Subcommittee was held on Monday, April 11, 2011 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 2:15 p.m. and the following members were present:

Louis F. Moret, Chair
JJ Jelincic, Vice Chair
Richard Costigan
George Diehr

Subcommittee members excused:
Priya Mathur

Other Board members present:
Henry Jones
Bill Lockyer, represented by Bill Dowell

AGENDA ITEM 2 – APPROVAL OF THE FEBRUARY 2011 MEETING MINUTES

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to approve the February 14, 2011 meeting minutes as presented.

AGENDA ITEM 3 – ELECTION OF CHAIR AND VICE CHAIR

Mr. Costigan nominated Mr. Jelincic to Chair the Subcommittee.

On **MOTION** by Mr. Costigan, **SECONDED** and **CARRIED** that Mr. Jelincic be elected Chair of the Investment Policy Subcommittee by unanimous ballot.

Mr. Diehr nominated Mr. Moret to Vice Chair the Subcommittee.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** that Mr. Moret be elected Vice Chair of the Investment Policy Subcommittee by unanimous ballot.

AGENDA ITEM 4 – Policies relevant to adoption of new asset classifications, asset allocation mix, and and asset class ranges.

Janine Guillot, Chief Operating Investment Officer, provided introductory remarks regarding the series of policies to be adopted, revised, and repealed relevant to implementation of the new asset allocation framework approved by the Investment Committee in December 2010, and the new Real Estate Strategic Plan.

AGENDA ITEM 4a – Revision of Policy for Asset Allocation Strategy

Farouki Majeed, Senior Investment Officer, highlighted the proposed revisions to asset allocation targets and ranges and noted that staff believe the target tracking error is low and will discuss this with the Investment Committee in the future.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to recommend to the Investment Committee approval of the revised Statement of Investment Policy for Asset Allocation Strategy.

AGENDA ITEM 4b – Revision of Statement of Investment Policy for Benchmarks

Matt Flynn, Division Chief, presented proposed revisions to the policy to incorporate the new asset classification structure for Total Fund. In addition, staff updated the benchmarks for Global Equity, AIM, Real Estate, Inflation-Linked Bonds, Infrastructure, and SIP CalPERS Risk-Based and Target Retirement Date Funds.

On **MOTION** by Mr. Moret, **SECONDED** and **CARRIED** to recommend to the Investment Committee approval of the revised Statement of Investment Policy for Benchmarks, as amended.

AGENDA ITEM 4c – Liquidity Asset Classification

- 1) Adoption of Policy on Liquidity**
- 2) Revision of Policy on Low Duration Fixed Income Program**

Curtis Ishii, Senior Investment Officer, presented the proposed Liquidity Program Policy. Michael Schlachter, Wilshire Consulting, was available to respond to questions from the Subcommittee.

Per approval of the new asset allocation plan, an existing asset category called capitalized cash was renamed Liquidity and expanded. Within this category are two portfolios: US Treasury 2-10 Year Program and Internally Managed Dollar-Denominated Short Term Program. The existing Short Term Program language was moved from the Policy on Low Duration Fixed Income Program to the Liquidity Program Policy.

On **MOTION** by Mr. Moret, **SECONDED** and **CARRIED** to recommend to the Investment Committee adoption of the Statement of Investment Policy for the Liquidity Program.

AGENDA ITEM 4d – Adoption of Policy on Inflation Assets and its components: Commodities and Inflation-Linked Bonds

Curtis Ishii, Senior Investment Officer, presented the item. Michael Schlachter, Wilshire Consulting, was available to respond to questions from the Subcommittee.

This policy reflects the extraction of the Infrastructure and Forestland Programs from the Inflation-Linked Asset Class (ILAC) Policy. These Programs were moved to the Real Assets Policy, leaving the Commodities and Inflation-linked Bond Programs in the Inflation Assets Policy. The ILAC Policy will be repealed upon adoption of this item.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to recommend to the Investment Committee adoption of the Statement of Investment Policy for Inflation Assets and its components: Commodities and Inflation-Linked Bonds.

AGENDA ITEM 4e – Adoption of Policy on Real Assets and its components: Real Estate, Forestland, and Infrastructure

Ted Eliopoulos, Senior Investment Officer, presented the overarching Real Assets Policy and the Real Estate, Infrastructure and Forestland Program components; and provided a summary of the proposed additions or changes. The previous Real Estate Program Policy and the ILAC Policy will be repealed upon adoption of this item.

Michael Schlachter, Wilshire Consulting, Paul Mouchakkaa, Pension Consulting Alliance, were available to respond to questions from the Subcommittee.

The Subcommittee provided input regarding the Real Estate Program Policy. Some of the issues discussed were policy variances, use of spring-fed pool consultants, and portfolio ranges and limits.

On **MOTION** by Mr. Moret, **SECONDED** and **CARRIED** to recommend to the Investment Committee adoption of the Statement of Investment Policy for Real Assets, as amended.

AGENDA ITEM 4f – Repeal of Policies on Inflation-Linked Asset Class (ILAC) and Real Estate

The Subcommittee acknowledged that, upon Investment Committee adoption of the above items, the Statement of Investment Policies for ILAC and Real Estate will be repealed.

AGENDA ITEM 5 – Adoption of Policy on the Role of Private Asset Class Board Investment Consultants

Janine Guillot, Chief Operating Investment Officer, presented the item. The proposed policy was developed following a request by the Investment Committee that the role of Private Asset Class Board Investment Consultants be explored, as well as the independence and the economics surrounding consultant roles. This topic was also discussed at the December 2010 and February 2011 Policy Subcommittee meetings.

The Subcommittee provided input regarding the policy and requested that a Second Reading be scheduled.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** that the First Reading of the Statement of Investment Policy for the Role of Private Asset Class Board Investment Consultants be approved.

AGENDA ITEM 6 – Repeal of Policy on Directed Brokerage Arrangement

Dan Bienvenue, Senior Portfolio Manager, presented the rationale for repeal of this policy and outlined next steps for transition. Michael Schlachter, Wilshire Consulting, was available to respond to questions from the Subcommittee.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to recommend to the Investment Committee to repeal the Statement of Investment Policy for Directed Brokerage Arrangement.

AGENDA ITEM 7 – AGENDA AND CALENDAR

a. Draft Agenda

The Subcommittee accepted the proposed June 13, 2011 draft agenda, with the addition of a Second Reading of the Statement of Investment Policy for the Role of Private Asset Class Board Investment Consultants.

b. Rolling Annual Agenda Item Calendar

The Subcommittee accepted the proposed Rolling Annual Agenda Item Calendar.

AGENDA ITEM 8 – PUBLIC COMMENT

There were no public comments.

The meeting was adjourned at approximately 3:20 p.m.

The next Subcommittee meeting is scheduled for June 13, 2011 at a time to be determined in Sacramento, California.